

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON UMTSHEZI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Umtshezi Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Commitments

6. The municipality did not have adequate systems in place to record all capital commitments. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as capital commitments in note 39 to the financial statements and I could not confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments to the approved and contracted capital commitments stated at R39,56 million and approved and not yet contract capital commitments stated as R80,69 million in the financial statements were and are necessary.

Liabilities

7. I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for all accruals for the current year. I was unable to confirm the accruals by alternative means. Consequently, I was unable to determine whether any adjustment to accruals stated at R29,22 million in note 16 to the financial statements was necessary.

Irregular expenditure

8. The municipality did not have adequate systems in place to maintain records of payments made in contravention of the supply chain management regulations. I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for all irregular expenditure for the current year. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to irregular expenditure stated at R12,80 million in note 46 to the financial statements were and are necessary.

Opinion

9. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Umtshezi Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

11. As disclosed in note 40 to the financial statements, litigation is in the process against the municipality relating to an incident where an officer, in the discharge of his duties, shot a street vendor. The plaintiff is seeking damages to the amount of R300 000 in respect of pain, suffering and discomfort. The outcome of this matter was not certain at the reporting date.

12. As disclosed in note 40 to the financial statements, the municipality is also defending a matter against a construction company for the amount of R2,76 million. This company interdicted the municipality from advertising certain developments that they believe were awarded irregularly, whilst the municipality is of the opinion that this company was in breach of its contract. The outcome of this matter was not certain at the reporting date.

Restatement of corresponding figures

13. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 2012-2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Material underspending of grants

14. As disclosed in the statement of comparison of budget and actual amounts, the municipality has materially underspent its budget on government grants and subsidies by R7,61 million. As a consequence, the municipality has not achieved its planned targets as per the approved service delivery and budget implementation plan.

Material losses

15. As disclosed in note 52 to the financial statements, the municipality incurred material electricity distribution losses of 16,37 million kilowatt hours during the year.

Material impairment

16. As disclosed in note 11 to the financial statements, the municipality provided for an impairment allowance of R34,91 million on consumer debtors, as the recoverability of these amounts were considered doubtful.

Going concern

17. As disclosed in note 44 to the financial statements the municipality's financial statements reflect indicators of a going concern risk as the unspent grants and liabilities were not cash backed by investments as well as cash and cash equivalents. Moreover, the municipality has impaired 44.9% of its debtors.

Additional matter

18. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

19. The supplementary information set out on pages ... to ... do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

20. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

21. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
22. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPPI)*.

The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

23. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matter

24. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matter below.

Achievement of planned targets

25. Of the total number of forty-two (42) targets planned for the year under review, ten (10) of the targets were not achieved. This represents 24% of total planned targets that were not achieved for the year. This was mainly due to inadequate monitoring of targets and suppliers as well as inadequate funding.

Compliance with laws and regulations

26. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Procurement and contract management

27. Goods and services with a transaction value below R200 000 were procured without obtaining the required written price quotations, as required by regulations 17(a) and 17(c) of the Municipal Supply Chain Management Regulations (MSCM).
28. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by regulations 19(a) and 36(1) of the MSCM.
29. Sufficient appropriate audit evidence could not be obtained that quotations were awarded to suppliers whose tax matters have been declared to be in order, as required by regulation 43 of the MSCM.
30. The preference point system was not always applied in the procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework, 2000 (Act No. 5 of 2000).

Annual financial statements

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors were not adequately corrected and were not supported by full and proper records, which resulted in the financial statements receiving a qualified opinion.

Expenditure management

32. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Internal control

33. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

34. The accounting officer did not exercise effective oversight responsibility regarding financial reporting and compliance with procurement and expenditure management as well as internal control.

Financial management

35. Management has not implemented adequate controls over the preparation of the financial statements to ensure that it complies with the required accounting standards. Adequate review and monitoring over supply chain management was not undertaken.

OTHER REPORTS

Investigations in progress

36. The South African Police Services is investigating a banking fraud case perpetrated against the municipality during June 2013. The matter is also being investigated by the forensic divisions of two banks and certain monies have been refunded by ABSA bank to the municipality.
37. The Department of Human Settlements has initiated a forensic investigation into the upgrade Khwezi Hostel. The project is currently on hold pending the outcome of the investigation.

Auditor-General

Pietermaritzburg

29 November 2013



AUDITOR-GENERAL
SOUTH AFRICA

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